Rinehart Wealth Management
Greater Trust

December 2nd, 2013
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Social Security Optimization Strategies

Today, retirees are more dependent on the receipt of Social Security benefits than at any other time since the program's inception. Unfortunately, the rules and calculations surrounding a person's Social Security benefits are complicated. This newsletter provides a broad analysis of some of the factors that ultimately impact the amount of collected benefits.

Depending on marital status, age, projected lifetime, and other factors, one can create a Social Security claiming strategy that may significantly increase cumulative lifetime benefits. A Social Security claiming strategy refers to the decision as to when a single individual will begin his or her benefits or when each partner will begin their own benefits and, when applicable, their spousal benefits. The best claiming strategy considers the rules and constraints of the Social Security system. Most Americans make this critical claiming decision without understanding the rules governing benefits or without advice from someone who can help them make an informed decision.

Many individuals claim Social Security benefits as soon as possible. One reason given for this decision to begin benefits early is that they want to get what they can before the system goes broke. We do not believe that this is a good basis for deciding to begin benefits early. Although no one knows how the system may change, we believe such changes will have little, if any, impact on individuals in or near retirement.

Social Security benefits may begin at an individual's Early Retirement or Full Retirement Age which are defined as follows:

- **Early Retirement** – Individuals can begin their Social Security benefits as early as age 62. If retirement benefits begin at age 62, the monthly benefit amount will be permanently reduced. The amount of this reduction depends on the number of months before Full Retirement Age is attained. For example, if your Full Retirement Age is 66 and you begin your benefits at age 62, your monthly benefit will be reduced by 25%.

- **Full Retirement Age** ("FRA") - Full Retirement Age is the age at which a person may first become entitled to full or unreduced retirement benefits. The full retirement age of an individual depends on the year of their birth and begins at age 65, increasing to age 67 for anyone born during 1962 or later.

Innovative Strategies to Optimize Your Social Security Benefit

I. For Individuals

- **Delayed Retirement Credits-** Once you attain your FRA, you can choose to suspend the receipt of your retirement benefit until age 70. This option allows an individual to earn Delayed Retirement Credits ("DRCs") for any month from FRA up to age 70. The percentage that can be earned depends on the year of birth. For example, individuals born in 1943 or later will earn an additional 8% for every 12 months their benefit is delayed. If benefits are delayed until age 70, the Social Security benefit will be increased by a total of 32%. However, if you are enrolled in Medicare Part B, you will be billed by the Centers for Medicare and Medicaid Services (CMS) for future Part B premiums. The premiums cannot be deducted from your suspended retirement benefits and must be made timely or you may lose your Part B Medicare coverage.

II. For Married Spouses

- Perhaps the most confusing aspect of Social Security claiming is trying to understand the different types of retirement benefits for which married spouses might be eligible and how those benefits might interact with each other. At one time or another, a married spouse might be receiving a worker's benefit, a spousal benefit, or a survivor benefit. Whether both spouses worked and earned benefits or whether only one spouse worked, there are ways to optimize these benefits by developing a thorough claiming strategy.

- **File and Suspend** – Prior to 2000, if a worker delayed collecting Social Security, the spouse would not be able to collect spousal benefits until such claim was made. Fortunately, changes made under the Senior Citizens' Freedom to Work Act now allow a worker to "file and suspend" Social Security benefits once they attain FRA. This File and Suspend strategy will then allow the spouse to begin receiving spousal benefits based on the worker's record, while the worker continues to accrue DRCs. For example, Spouse A could file for and then immediately suspend his benefits at his FRA age of 66. His worker benefit would be delayed from age 66 to age 70 and would grow from $2,000 to $2,640, plus annual Cost of Living Adjustments ("COLAs"). When he files and suspends his benefits at his FRA of 66, Spouse B may then begin to receive a spousal benefit in the amount of 50% of Spouse A's FRA benefit, or $1,000.

- **File a Restricted Application** – Once you have reached your FRA and your spouse has filed for worker's benefits, you could file for only a spousal benefit based on your spouse's work record, while letting the benefit based on your own work record grow until age 70 by earning DRCs. This process is referred to as "filing a restricted application for a spousal benefit." Interestingly, the spousal benefit at this point is not reduced by your own worker benefit, but rather is based on half of your spouse's FRA benefit. The individual claiming the spousal benefit would then switch from the spousal benefit to their own benefit at age 70. The spousal benefit is being used to bridge the individual to a higher worker benefit, which he or she will receive until either they or their spouse dies. Should their spouse die first, they would step up to their spouse's current benefit ($2,000 plus accumulated COLAs).

- **Combining the Two** – There is a way to combine the two strategies, with one spouse filing and suspending a worker benefit, and the other spouse filing a restricted application for *only* a spousal benefit. Using the example above, instead of Spouse A filing for his worker benefit at age 66, he could file and suspend his worker benefit at age 66 and delay that benefit to age 70. Meanwhile, Spouse B could file a restricted application for her $1,000 spousal benefit and let her $1,200 worker benefit earn DRCs until age 70. You cannot file and suspend your benefit and then file a restricted application for a spousal benefit. However, one spouse could file and suspend, while the other files a restricted application. It is not permissible for each spouse to file and suspend his or her own worker's benefits and then file a restricted application for a spousal benefit based on the other's work record.

Key Points to Remember

- To receive a spousal benefit based on your spouse's work record, your spouse must have filed for or filed and suspended their benefits.
- Prior to your FRA, you are deemed to be filing for all available benefits and cannot choose one type of benefit (e.g., worker benefit) over the other (e.g., spousal benefit).
- If you start your worker's benefits early, they do not increase later in the form of a spousal benefit. A spousal benefit may indeed become available later, but the total benefit will always be lower because at least a portion (the worker benefit) started earlier than your FRA.
- No matter which spouse dies first, the smaller benefit is eliminated and the larger benefit continues.
- Two little-known strategies are available for married couples: the "file and suspend" method and the "filing a restricted application" method. If both spouses have reached their respective FRA, these two strategies can be combined, with one spouse filing and suspending, and one spouse filing a restricted application for a spousal

benefit.

- In order to elect a spousal benefit and then later switch to your own worker benefit, the spousal benefit must begin at FRA or later.

III. For Divorced Individuals

- ♦ The spousal benefit described above is also available to a former spouse if the marriage lasted 10 years and the individual filing for spousal benefits is currently unmarried. In fact, the “file a restricted application” strategy is available, as well. One unique twist holds that, if you have been divorced for more than two years, your ex-spouse is not required to have filed for benefits for you to receive spousal benefits. The former spouse merely has to be eligible for benefits (i.e., age 62 and one month). The other strategy discussed, the “file and suspend” strategy, is never needed, since the former spouse does not need to file for benefits for the ex-spouse to become eligible for benefits. Your former spouse’s current marital status is irrelevant: both current and former spouses have rights to a “full” spousal benefit, as well as a “full” survivor benefit.

IV. For Widow(er) Individuals

- ♦ Little-known claiming strategies are available for those entering retirement who earned a benefit based on their own work record and also had a spouse who passed away. Please let us know if you would like more detailed information on such strategies.

As you can see, optimizing your Social Security benefits can be beneficial and an important decision that should not be made without proper advice. At Rinehart Wealth Management, our job is to help guide you so that you can make a better, more-informed decision. Please give us a call with any questions and let us know how we can help.